

HOUGHTON LAKE SEWER AUTHORITY

HOUGHTON LAKE, MICHIGAN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Houghton Lake Sewer Authority	County Roscommon
Audit Date 12/31/04	Opinion Date 2/8/05	Date Accountant Report Submitted to State: 4/3/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

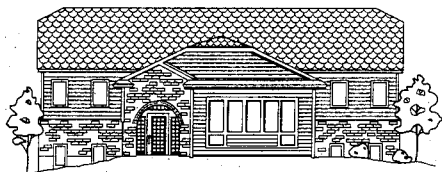
We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Keskine, Cook, Miller & Alexander, LLP			
Street Address 100 West First Street	City Gaylord	State MI	ZIP 49735
Accountant Signature <i>Rachel Frisch</i>			

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Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
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INDEPENDENT AUDITOR'S REPORT

February 8, 2005

Board of Commissioners
Houghton Lake Sewer Authority
Houghton Lake, MI

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information of the Houghton Lake Sewer Authority as of and for the year ended December 31, 2004, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the remaining fund information of the Houghton Lake Sewer Authority as of December 31, 2004, and the respective changes in financial position and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, on pages 2-4, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

K K Cook Miller & Alexander LLP
Keskin, Cook, Miller & Alexander, LLP
Certified Public Accountants



Houghton Lake Sewer Authority

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HOUGHTON LAKE SEWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2004

This section of the annual financial report of the Houghton Lake Sewer Authority presents our discussion and analysis of the entity's financial performance during the fiscal year ended December 31, 2004. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

Our financial status remained stable over the last year. The change in net assets was \$49,956.

Assets decreased approximately \$7,000 (0.7%) from the prior year, largely due to the fact that depreciation of capital assets exceeded new purchases in 2004, as described in detail in a subsequent section of this letter.

Overall revenues were \$1,092,877, of which \$1,084,635 were program revenues and \$8,242 were general revenues. Overall expenses (including depreciation) totaled \$1,042,921. The cost of the operations and maintenance program increased approximately 4% from the prior year, primarily due to increased equipment repairs and maintenance costs.

Quarterly contributions from Denton, Lake, and Roscommon Townships comprised the majority of the Authority's revenues collected during the year. Overall revenues increased 6% from the prior year.

Overview of the Financial Statements

This annual report consists of two parts, management discussion and analysis and the basic financial statements. The basic financial statements include two different kinds of statements that present different views of the Authority.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present business type activities according to function.

The remaining statements are fund financial statements, which focus on individual parts of the Authority in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Government-Wide Statements

The government-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the entity's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Authority's assets and liabilities and this is one method to measure financial health or position.

Over time increases/decreases in the Authority's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as changes in Township contributions, facility conditions, and personnel changes.

The activity of the Authority – sewer operations and maintenance – is reported as a business-type activity. The Authority has no governmental activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's funds, focusing on significant (major) funds, not the Authority as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the Authority's board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Authority has the following fund:

Operations and Maintenance Fund – All of the entity's activities are included in this fund category. The fund is presented on the accrual basis, as required for proprietary fund types, which is designed to show both short and long-term financial information. You will note that there are no differences in the totals between the government-wide statements and the fund statements. The only differences lie in financial statement presentation.

Financial Analysis of the Entity as a Whole

	2004	2003
Current Assets	\$ 256,756	\$ 230,164
Capital Assets, net of depreciation	623,189	657,173
Total Assets	<u>\$ 879,945</u>	<u>\$ 887,337</u>
Current Liabilities	\$ 77,633	\$ 74,948
Long-Term Liabilities	177,365	237,398
Total Liabilities	<u>\$ 254,998</u>	<u>\$ 312,346</u>
Operating Revenues	\$1,084,722	\$1,014,516
Operating Expenses	\$1,031,479	\$ 991,961

Net Assets – the entity's combined net assets increased during the year ended December 31, 2004 totaling \$624,947. The primary reason for the increase in net assets was the increase in contributions from the participating Townships.

Financial Analysis of the Authority's Funds

The activities of the operations and maintenance fund have remained constant, consisting of utility expenses, systems and equipment repairs and maintenance, and capital projects.

Capital Asset and Long-term Debt Activity

Capital Assets – The Authority purchased new equipment during the year amounting to approximately \$37,000. The equipment consisted of: two new computers, a copy machine, a pickup truck, and other small items.

Long-term Debt – The Authority paid \$62,353 in principal and \$11,442 in interest on long-term debt. Total outstanding debt (including current portions) amount to \$212,398 at December 31, 2004.

Known Factors affecting Future Operations

None.

Contacting Entity Management

This financial report is designed to provide taxpayers, creditors, investors and customers with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report please contact Mr. Ed Ryzicki, Office Manager, at 1250 South Harrison Road, Houghton Lake, MI 48629.

Signature:



Date: March 14, 2005

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 105,118
Investments	10,000
Accounts Receivable	116,638
Inventory	25,000

Total Current Assets	256,756
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Equipment and Improvements (At Cost)

Equipment	1,057,201
Building Improvements	100,925
Accumulated Depreciation	(534,937)

Total Equipment and Improvements	623,189
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Total Assets	879,945
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LIABILITIES

Current Liabilities

Interest Payable	5,666
Due to Governmental Units	209
Permit Fees Payable	6,725
Current Portion of Notes Payable	65,033

Total Current Liabilities	77,633
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Long Term Liabilities

Notes Payable	147,365
Accrued Sick Pay	30,000

Total Long Term Liabilities	177,365
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Total Liabilities	254,998
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	410,791
Unrestricted Net Assets	214,156

Total Net Assets	\$ 624,947
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See accompanying notes to the financial statements

HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2004

<u>P R O G R A M R E V E N U E S</u>				<u>NET (EXPENSE)/ REVENUE AND CHANGES IN NET ASSETS</u>
<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS & CONTRIBUTIONS</u>	<u>CAPITAL GRANTS & CONTRIBUTIONS</u>	
BUSINESS-TYPE ACTIVITIES				
Sewer Operations	\$ (1,031,479)	\$ 202,742	\$ -	\$ 53,156
Interest on Long-Term Debt	(11,442)	-	-	(11,442)
Total Business-Type Activities	(1,042,921)	202,742	881,893	41,714
GENERAL REVENUES				
Gain on Disposal of Equipment				6,000
Interest and Other Income				2,242
Total General Revenues				8,242
Change in Net Assets				49,956
Net Assets - January 1				574,991
Net Assets - December 31				\$ 624,947

See accompanying notes to the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF FUND NET ASSETS
DECEMBER 31, 2004**

	SEWER OPERATING
<hr/>	
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 105,118
Investments	10,000
Accounts Receivable	116,638
Inventory	25,000
	<hr/>
Total Current Assets	256,756
	<hr/>
Equipment and Improvements (At Cost)	
Equipment	1,057,201
Building Improvements	100,925
Accumulated Depreciation	(534,937)
	<hr/>
Total Equipment and Improvements	623,189
	<hr/>
Total Assets	879,945
	<hr/> <hr/>
 LIABILITIES AND NET ASSETS	
Current Liabilities	
Interest Payable	5,666
Due to Governmental Units	209
Permit Fees Payable	6,725
Current Portion of Notes Payable	65,033
	<hr/>
Total Current Liabilities	77,633
	<hr/>
Long Term Liabilities	
Notes Payable	147,365
Accrued Sick Pay	30,000
	<hr/>
Total Long Term Liabilities	177,365
	<hr/>
Total Liabilities	254,998
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Net Assets	
Invested in Capital Assets, Net of Related Debt	410,791
Fund Net Assets	214,156
	<hr/>
Total Net Assets	624,947
	<hr/>
Total Liabilities and Net Assets	\$ 879,945
	<hr/> <hr/>
See accompanying notes to the financial statements	

HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED DECEMBER 31, 2004

	SEWER OPERATING
<hr/>	
OPERATING REVENUES	
Township Contributions:	
Denton	\$ 476,167
Lake	185,176
Roscommon	220,535
Services	77,587
Building Agency Expense Reimbursements	125,257
	<hr/>
Total Operating Revenues	1,084,722
	<hr/>
OPERATING EXPENSES	
Salaries	379,295
Employee Benefits	251,060
General Repair and Maintenance	102,053
Utilities	120,932
Depreciation	71,035
Insurance	47,738
Equipment Purchase, Rental and Maintenance	6,007
Telephone	11,519
Gas and Oil	13,632
Postage and Office Supplies	10,147
Operating Supplies	3,828
Custodial Supplies	682
Professional Services	3,944
Education	810
Dues and Subscriptions	1,160
Travel and Mileage	2,707
Clothing Allowance	4,536
Dues and Subscriptions	394
	<hr/>
Total Operating Expenses	1,031,479
	<hr/>
Operating Income	53,243
NON-OPERATING REVENUES/(EXPENSES)	
Gain on Disposal of Assets	6,000
Interest on Investments	2,155
Interest Expense	(11,442)
	<hr/>
Non-Operating Income/(Loss)	(3,287)
	<hr/>
Net Income	49,956
	<hr/>
Fund Net Assets - January 1	574,991
	<hr/>
Fund Net Assets - December 31	\$ 624,947
	<hr/> <hr/>

See accompanying notes to the financial statements

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Townships	\$ 826,196
Cash Received from Others	86,635
Cash Received from Permit Activity	8,775
Cash Received from Building Agency	124,584
Cash Payments to Vendors for Goods and Services	(616,831)
Cash Payments to Employees for Services Rendered	(403,127)
Cash Payments for Permit Activity	(7,700)
Cash Payments for Inspections	(2,050)

Net Cash Provided by Operating Activities	16,482
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(37,051)
Disposal of Capital Assets	6,000
Principal Paid on Notes	(38,804)
Interest Paid on Notes	(11,442)

Net Cash Used by Capital and Related Financing Activities	(81,297)
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	2,155
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Net Increase in Cash and Cash Equivalents	(62,660)
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Cash and Cash Equivalents - January 1	167,778
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Cash and Cash Equivalents - December 31	\$ 105,118
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**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating Income	\$ 53,243
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation (net of disposal)	55,736
Increase in Accounts Receivable	(89,252)
Decrease in Due to Other Governments	(594)
Increase in Accounts Payable	503
Decrease in Other Liabilities	(3,154)

Net Cash Provided by Operating Activities	\$ 16,482
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See accompanying notes to the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2004**

ASSETS

Cash and Cash Equivalents	\$ 8,240
	<u> </u>

LIABILITIES

Contractor's Cash Bonds	\$ 8,240
	<u> </u>

See accompanying notes to the financial statements

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED DECEMBER 31, 2003**

ADDITIONS

Interest on Contractor's Bonds	\$	21
Contractor Deposit		500
Sewer Usage Billings Collections		1,283,370
Total Additions		<u>1,283,891</u>

DEDUCTIONS

Payments of Sewer Usage Collections to Townships		<u>1,283,370</u>
Change in Net Assets		521
Net Assets Held in Trust for Contractors - January 1		<u>7,719</u>
Net Assets Held in Trust for Contractors - December 31	\$	<u><u>8,240</u></u>

See accompanying notes to the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE A: ENTITY

The authority was created in 1973 by the townships of Denton, Lake and Roscommon of Roscommon County for the purpose of operating, maintaining, administering and managing a sanitary sewage facility for the benefit of the forenamed three townships and for any other township or municipality which hereafter joins in and becomes a part of such sewer system and the related agreement, all for the betterment of the health, safety, economy and general welfare of the participating municipalities.

Ownership of the public sanitary sewer system will remain with the Roscommon County Department of Public Works until all outstanding bonds issued by said department of the County of Roscommon pertaining to the system have been retired. Thereafter, all portions of the system shall become the property of the respective municipalities in which the same are located and are to be operated for the benefit of said participating municipalities both jointly and severally.

The participating townships are required to reimburse the Sewer Authority for all operating expenses either directly or indirectly based upon sewage treatment demands, flow and other service demands of the respective townships as is most appropriate under the circumstances in order to effectuate a fair and equitable distribution of such expense. Also, the townships must provide certain moneys to the Sewer Authority for the replacement, maintenance and the acquisition of additional fixed assets. The separate financial statements of the townships participating in the joint venture are located at:

Roscommon Township
8555 Knapp Road
PO Box 610
Houghton Lake, MI 48629

Denton Township
2565 South Gladwin Road
PO Box 289
Prudenville, MI 48651

Lake Township
PO Box 427
Houghton Lake, MI 48629

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Houghton Lake Sewer Authority are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures, of the Authority's financial activities for the fiscal year ended December 31, 2004.

The accounting policies of the Authority conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On January 1, 2003, the Authority adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Authority's financial statements has shifted from a fund focus to a government-wide focus.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT
PRESENTATION**

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Authority as a whole, excluding fiduciary activities such as sewer usage fee collections and disbursements and contractor's bond activity. Individual funds are not displayed but the statements distinguish governmental activities from business-type activities, generally financed in whole or in part with fees charged to external customers. Due to the nature of the operations of the Authority, there are no governmental activities. It is a single-purpose government engaging in only business-type activities.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)**

Government-Wide Financial Statements (Continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. The Authority engages in one functional activity – sewer operations. Program revenues include: (1) charges for services which report fees and other charges to users of the Authority's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues. At this time, the Authority has no general revenues.

Fund Financial Statements

Fund financial statements are provided for proprietary (sewer operations) and fiduciary funds.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Proprietary Fund

The Authority reports the following major proprietary fund:

Sewer Operations Fund – this fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS (CONTINUED)

Other Funds

Fiduciary Fund - This fund is used to account for assets held in trust or as an agent for others. The contractor's bond activities and sewer usage fee collections and disbursements are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary Fund Financial Statements

Operating income reported in proprietary fund financial includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to the townships for services provided. Principal operating expenses are the costs of providing sewer operation services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET

An operating budget is prepared by the Authority annually for use as a management tool and is presented to the three member townships for adoption. The budget is adopted prior to January 1 and is amended if necessary.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

INVENTORY

Inventory consists of various parts and supplies on hand and is recorded at estimated historical cost.

CAPITAL ASSETS AND DEPRECIATION

The Authority's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide and proprietary fund financial statements. The Authority maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The Authority generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Depreciation of all exhaustible fixed assets purchased by the Authority is charged as an expense against operations. Accumulated depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Improvements	25-50 years
Equipment	5-15 years

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide and proprietary fund financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

NOTE C: CASH AND INVESTMENTS

All cash and investments are maintained in financial institutions in the Houghton Lake, Michigan area and are stated at cost, which approximates fair market value. Investments consist of certificates of deposit with original maturities in excess of 90 days. All cash deposits are maintained in accounts as approved by State Statutes.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 – Collateralized with securities held by the pledging Financial institution's trust department or agent in the Authority's name.

Category 3 – Uncollateralized.

<u>BANK BALANCE</u>	<u>1</u>	<u>CATEGORY 2</u>	<u>3</u>	<u>CARRYING AMOUNT</u>
<u>\$ 140,605</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 40,605</u>	<u>\$ 105,118</u>

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's investments are as follows:

- (1) Insured or securities held by the Authority or the agent in the Authority's name.
- (2) Uninsured with securities held by the counter party's trust department or its agent in the Authority's name.
- (3) Uninsured with securities held by the counter party's trust department or agent but not in the Authority's name.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE C: CASH AND INVESTMENTS (CONTINUED)

Balances at December 31, 2004 consist of the following:

	<u>1</u>	<u>CATEGORY</u> <u>2</u>	<u>3</u>	<u>CARRYING</u> <u>AMOUNT</u>
Certificate of Deposit	<u>\$10,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,000</u>

Carrying value approximates fair market value of investments at December 31, 2004.

NOTE D: ACCOUNTS RECEIVABLE

The Authority provides sewer services to Markey Township and is paid for these services quarterly. Additionally, the Authority provides certain administrative services to the Houghton Lake Building Agency and is reimbursed on monthly basis. The amounts due the Authority for services rendered as of December 31, 2004 are as follows:

Markey Township	\$ 21,396
HL Building Agency	10,242

The participating Townships have authorized a contribution of additional dollars to the Authority to cover the increasing cost of operations. The Townships will contribute equal portions of the following totals:

Year ended 2003 contribution	30,000
2004 contribution	<u>55,000</u>
Total Accounts Receivable	<u>\$ 116,638</u>

Management considers these amounts to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE E: CAPITAL ASSETS

	<u>CAPITAL ASSETS DEPRECIATED</u>				
	<u>Buildings</u>	<u>Office Equipment</u>	<u>Operating Equipment</u>	<u>Computer Equipment</u>	<u>Totals</u>
Business-Type Activities					
Balance, January 1, 2004	\$ 100,925	\$ 42,958	\$ 945,629	\$ 53,836	\$1,143,348
Increases	-	3,599	30,747	2,705	37,051
Decreases	-	-	22,273	-	22,273
Balance, December 31, 2004	<u>100,925</u>	<u>46,557</u>	<u>954,103</u>	<u>56,541</u>	<u>1,158,126</u>
Accumulated Depreciation					
Balance, January 1, 2004	\$ 48,680	\$ 33,034	\$ 351,771	\$ 52,690	\$ 486,175
Increases	2,029	2,591	65,580	835	71,035
Decreases	-	-	22,273	-	22,273
Balance, December 31, 2004	<u>50,709</u>	<u>35,625</u>	<u>395,078</u>	<u>53,525</u>	<u>534,937</u>
Business-Type Activities Capital Assets, Net	<u>\$ 50,216</u>	<u>\$ 10,932</u>	<u>\$ 559,025</u>	<u>\$ 3,016</u>	<u>\$ 623,189</u>

Depreciation expense for the year ended December 31, 2004 totaled \$71,035.

NOTE F: DUE TO/FROM OTHER GOVERNMENTAL UNITS

Each year the Authority operates on a budget which the participating townships use as a basis for operating fund advances. At December 31 of each year activity is charged to the townships on the basis of actual charges and allocations based on percentage of equivalent units. The variance is added or subtracted from the next quarterly contribution. The total amount due to the participating Townships was \$209 at December 31, 2004.

NOTE G: NOTES PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2004:

<u>Description and Purpose</u>	<u>Balance 1/1/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/04</u>	<u>Current Portion</u>
Business-Type Activities					
2003 Vacuum Truck Note	\$ 167,000	\$ -	\$ 38,804	\$ 128,196	\$ 40,705
Pond Doctor Note	107,751	-	23,549	84,202	24,328
Total	<u>\$ 274,751</u>	<u>\$ -</u>	<u>\$ 62,353</u>	<u>\$ 212,398</u>	<u>\$ 65,033</u>

VACUUM TRUCK NOTE

In 2003, the Authority acquired a vacuum truck. The cost of the vacuum truck was \$262,000, offset by a \$95,000 trade in value of the 1998 vacuum truck. The net amount financed totaled \$167,000. The loan is due \$46,987 annually, including interest at 4.9%.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE G: NOTES PAYABLE (CONTINUED)

POND DOCTOR NOTE

In 2003, the Authority purchased pond doctor equipment at a cost of \$123,030, financed through Bank One. Payments are \$2,226 monthly, including interest at 3.26%.

Annual principal payments are due as follows:

		Vacuum Truck	Pond Doctor
Year ended December 31,	2005	\$ 40,705	\$ 24,328
	2006	42,700	25,133
	2007	44,791	25,965
	2008	-	8,776
		<u>\$ 128,196</u>	<u>\$ 84,202</u>

NOTE H: SICK PAY ALLOWANCE

The Authority allows its employees to accumulate unused sick leave to a maximum of thirty days per employee. The estimated liability for all sick leave at December 31, 2004 is approximately \$30,000.

NOTE I: PERMIT FEES

Permit fees are collected and disbursed for the benefit of the townships. The fees are used to first offset inspection costs and any excess amounts collected are disbursed to the townships.

NOTE J: LEASES

The authority has an operating lease for one vehicle. The monthly obligation totals \$318.

Future minimum annual lease payments are as follows:

Year ended 2005	\$ 3,811
2006	3,811
2007	1,905

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004**

NOTE K: PENSION PLAN

The Houghton Lake Sewer Authority contributes to the Houghton Lake Sewer Authority Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amounts of benefits the individual is to receive. Under the Authority's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Upon the date of hire, all full time and permanent part-time employees are eligible to participate in the plan. Contributions made by both the Authority and employees vest immediately. The participant will receive benefits at age 55 or the tenth anniversary of the date the participant commenced participation of the plan if later. There is no provision for early retirement.

The plan requires the Authority to contribute 10% of the eligible employees wages. Additionally, each participant may make a contribution up to 10% of their salary. During the year the Authority contributed \$35,000 to the plan, which was approximately 10% of its current year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Authority or its employees.

NOTE L: INSURANCE

The Authority is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injury to employees; and natural disasters. The authority participates in the Michigan Township Participating Plan, a self-insured group. The plan is considered a public entity risk pool. The authority pays annual premiums to the plan for respective insurance coverage. In the event the plan's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the plan may be subject to special assessments to make up the deficiency. The plan maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance.

The authority has not been informed of any potential assessments being required at this time. There were no significant changes in coverage, nor were there any significant claims. The authority also carries commercial insurance for other types of losses.